

# Notes to Financial Statements

31st December, 2000

## 1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group was involved in the following principal activities:

- development and operation of, and investment in media, entertainment, Internet and technology-oriented businesses;
- provision of advertising agency services;
- management of hotel operations; and
- investment in hotel and restaurant operations, and property investment, (which were discontinued during the year, as further explained in note 3).

In the opinion of the Directors, as at 31st December, 2000, the immediate and ultimate holding company is Lai Sun Development Company Limited (“LSD”) which is incorporated and listed in Hong Kong.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital and/or controls the composition of its board of Directors.

Interests in subsidiaries are stated in the Company’s balance sheet at cost unless, in the opinion of the Directors, there have been permanent diminutions in values, when they are written down to values determined by the Directors.

### Associates

An associate is a company or a partnership, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

# Notes to Financial Statements

31st December, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Associates (continued)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the Directors, plus goodwill arising on the acquisition of the interests in the associates in so far as it has not already been written off or amortised.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The Company's interests in associates are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the Directors.

### Goodwill arising on consolidation

Goodwill arising on consolidation represents the excess purchase consideration paid for subsidiaries/associates over the fair values ascribed to the net underlying assets acquired at the dates of acquisition.

Goodwill arising on the acquisition of a subsidiary, namely Chains International Hotels Management Limited, was originally amortised on the straight-line basis over a period of 40 years, however the carrying amount of the goodwill was fully written off to the prior year's profit and loss account. Goodwill arising on the acquisition of other subsidiaries and associates is eliminated against reserves at the time of acquisition.

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Any impairment in value of goodwill, as determined by the Directors, is charged to the profit and loss account.

On disposal of subsidiaries or associates, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

### Capital reserve

Capital reserve arising on consolidation represents the excess of the fair value ascribed to the net underlying assets of subsidiaries/associates acquired at the date of acquisition over the purchase consideration paid.

### Fixed assets and depreciation

Fixed assets, other than investment properties, hotel properties and construction in progress, are stated at cost less accumulated depreciation and provision for impairment in carrying amount. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

# Notes to Financial Statements

31st December, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the unexpired lease terms
Buildings	2.5% – 5.0%
Leasehold improvements	5.0% or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	5.0% – 20.0%
Motor vehicles	10.0% – 20.0%
Computers	10.0% – 20.0%

Hotel properties represent interests in land and buildings and their integral fixed plant which are collectively used in the operation of hotels and are stated at cost. It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time and, therefore, any element of depreciation is insignificant. Accordingly, the Directors consider that depreciation need not be charged in respect of the hotel properties. The related maintenance and repairs is charged to the profit and loss account in the period in which it is incurred and the costs of significant improvements are capitalised.

Construction in progress represents a building under construction and is stated at cost and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant assets.

Where, in the opinion of the Directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to the recoverable amounts. Reductions of recoverable amounts are charged to the profit and loss account.

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

# Notes to Financial Statements

31st December, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Long term investments

Long term investments comprise non-trading investments in unlisted equity securities intended to be held for an identified long term purpose. Unlisted securities are stated at cost less provisions for impairments in values as deemed necessary by the Directors, other than those considered to be temporary in nature, on an individual investment basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the Directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairments previously charged is credited to the profit and loss account to the extent of the amount previously charged.

### Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

### Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowances for obsolete or slow-moving items. Cost for food, beverages, cutlery, linen and supplies is determined on the first-in, first-out basis. Cost for flour is determined on the weighted average basis and comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# Notes to Financial Statements

31st December, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following bases:

- (a) the operation of hotels and restaurants, when the services are provided;
- (b) hotel, restaurant and other management fee income, in the period in which such management services are rendered;
- (c) guaranteed returns on investment properties, on the straight-line basis over the guarantee period;
- (d) advertising agency fee income, in the period in which such advertising services are rendered;
- (e) compensation on investments in subsidiaries and associates, when the right to receive the payment is established;
- (f) from the sale of short term investments, on the transaction date when the relevant contract is entered into;
- (g) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (i) dividend income, when the shareholders' right to receive payment is established.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### Retirement benefits scheme costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

# Notes to Financial Statements

31st December, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Retirement benefits scheme costs (continued)

Prior to the Scheme being effective, the Group operated a defined contribution retirement benefits scheme for its employees who were eligible and had elected to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1st December, 2000, this scheme was terminated.

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with as movements in reserves.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

# Notes to Financial Statements

31st December, 2000

### 3. DISCONTINUED OPERATIONS

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement to effect an overall group reorganisation of the Lai Sun group of companies. As a result of the group reorganisation, among other things, the Group transferred to LSD certain of its subsidiaries, associates and a long term investment, the principal activities of which were the investment in and the operation of hotels and restaurants, and property investment (the “Discontinued Operations”).

The transaction was completed in two phases, which were undertaken on 30th June, 2000 and 31st July, 2000, respectively.

The results of the Discontinued Operations were accounted for until their effective dates of disposal, and the related assets and liabilities were included in the calculation of the net gain arising on the disposal of the Discontinued Operations, which amounted to HK\$8,562,000 (1999: Nil).

The Discontinued Operations disposed of during the year generated turnover of HK\$156,936,000 (1999: HK\$365,697,000) and other revenue of HK\$42,840,000 (1999: HK\$11,752,000), and contributed a net profit of HK\$54,826,000 (1999: net loss of HK\$1,379,212,000) to the Group’s loss from operating activities for the year.

The comparative turnover for the prior year in respect of these operations, which had previously been reported as “continuing operations” has been reclassified under the heading of “discontinued operations” for comparative purposes.

# Notes to Financial Statements

31st December, 2000

## 4. RELATED PARTY TRANSACTIONS

(a) In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year.

	Notes	Group	
		2000 HK\$'000	1999 HK\$'000
Rental expense paid to a fellow subsidiary	(i)	2,325	2,420
Hotel management, royalty and marketing fees received from hotels held by certain associates of LSD and a fellow subsidiary	(ii)	3,062	3,793
Hotel management fees paid to a fellow subsidiary	(iii)	2,127	1,250
Legal fees paid to Boughton Peterson Yang Anderson	(iv)	2,010	3,047
Interest income on deposits paid to Furama Hotel Enterprises Limited (note 18)		69,787	108,537
Interest income on an amount due from Furama Hotel Enterprises Limited (note 18)		37,489	—
Guaranteed rental income on investment properties from a fellow subsidiary	(v)	—	32,013
Compensation from LSD relating to the acquisitions of certain subsidiaries and associates in 1997	(vi)	—	7,215
Project management fee paid to LSD	(vii)	—	2,667
Management fee income from associates	(viii)	—	2,491

(i) Rental is charged by a fellow subsidiary with reference to market rate.

(ii) The hotel management, royalty and marketing fees are charged to the hotels at certain percentages ranging from 1% to 10% (1999: 1% to 10%) on the gross revenue or operating profits of the hotels.

(iii) The hotel management fees paid are charged by a fellow subsidiary at certain percentages ranging from 1.5% to 1.8% (1999: 1.5% to 1.8%) on the gross revenue of the hotels.

(iv) The legal fees were charged by Boughton Peterson Yang Anderson for the legal services rendered to the Group at market rates. Mr. Victor Yang, a Director of the Company, is a partner of the firm.

(v) Guaranteed rental income from a fellow subsidiary in 1999 was charged at a rate of 13% per annum on the consideration paid by the Group for the acquisition of certain investment properties, which were disposed of in 1999.

(vi) The compensation received from LSD in 1999 represented the reimbursement of interest expenses incurred in 1999 by certain subsidiaries and associates acquired by the Group from LSD pursuant to the terms of the acquisitions.

No compensation was received from LSD in the current year pursuant to the terms of a development agreement entered into in February 1999 between the Group and the LSD group, as further detailed in note 18.

(vii) The project management fee in 1999 was charged at 2% on the project development costs incurred. No project management services were rendered by the LSD group during the year.

(viii) The management fee income from associates in 1999 was charged at a monthly fixed amount as agreed, with reference to the time and cost incurred by the Group. The associates were disposed of in 1999.



# Notes to Financial Statements

31st December, 2000

## 4. RELATED PARTY TRANSACTIONS (continued)

- (b) On 10th March, 2000, a share purchase agreement (the “Agreement”) was entered into between Houseman International Limited (“Houseman”), which was a 50% associate of the Group, and Asia Television Limited (the “Vendor”), as to which approximately 16.67% of its issued share capital is owned by LSD. Pursuant to the Agreement, the Vendor agreed to dispose of 50% of the issued share capital of HKATV.com Limited (“HKATV.com”) to Houseman for an aggregate consideration of HK\$300,000,000. During the year, the Group’s share of the aggregate consideration was satisfied by cash of HK\$150,000,000.

The consideration was determined based on the long term investment potential and projected revenue to be generated from HKATV.com having regard to the exploitation rights granted to HKATV.com by the Vendor.

- (c) On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the “Reorganisation Agreement”). Pursuant to the Reorganisation Agreement, the Company transferred certain hotel and ancillary assets, through the disposal of certain subsidiaries, associates and a long term investment, with an aggregate value of HK\$685,410,000 to LSD and, at the same time, LSD transferred certain technology-oriented assets with an aggregate value of HK\$1,085,370,000 to the Company. The considerations for each of the hotel and ancillary assets and, the technology-oriented assets were determined based on the adjusted net asset values of these assets by reference to the valuations performed by independent professional valuers in respect of the open/fair market value as at 26th May, 2000, except for certain listed investments transferred by LSD to the Company, which were based on the average closing price of such investments for the 30 business days immediately preceding 2nd June, 2000, plus a premium of 11.4%. The excess consideration of HK\$399,960,000 payable by the Company to LSD in respect of such asset transfers was deducted from the outstanding principal amount of indebtedness, in the amount of HK\$1,900,000,000 (see note 18) which Furama Hotel Enterprises Limited, a wholly-owned subsidiary of LSD, otherwise owed to Golden Pool Enterprise Limited, a wholly-owned subsidiary of the Group, as a result of the cancellation of a development agreement as further detailed in note 18.

# Notes to Financial Statements

31st December, 2000

## 5. TURNOVER AND REVENUE

Turnover, principally comprises hotel and restaurant operating income, hotel management fees, guaranteed rental income on investment properties and advertising income. An analysis of turnover and revenue is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
<hr/>		
Continuing operations:		
Advertising income	13,440	—
Hotel management fee income	4,160	8,997
	<hr/>	<hr/>
	17,600	8,997
Discontinued operations:		
Hotel and restaurant operations	156,936	333,684
Guaranteed rental income on investment properties	—	32,013
	<hr/>	<hr/>
	156,936	365,697
Turnover	<hr/>	<hr/>
	174,536	374,694
Interest income	126,119	117,002
Dividend income from long term investments	1,000	—
Gain on disposal of short term investments	15,389	2,055
Compensation on investments in subsidiaries	—	2,459
Others	4,881	11,187
	<hr/>	<hr/>
Other revenue	147,389	132,703
	<hr/>	<hr/>
Total revenue	321,925	507,397
	<hr/>	<hr/>

# Notes to Financial Statements

31st December, 2000

## 6. LOSS FROM OPERATING ACTIVITIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
This is arrived at after crediting:		
Gross rental income	2,658	41,453
Less: Outgoings	—	(7,134)
Net rental income	<u>2,658</u>	<u>34,319</u>
Write-back of provisions for bad and doubtful debts	31,558	—
Gain on disposal of fixed assets	1,015	—
Foreign exchange gains, net	—	322
and after charging:		
Staff costs:		
Wages and salaries (including Directors' emoluments — see note 8):	85,494	125,915
Pension contributions	115	246
Less: Forfeited contributions	(69)	(95)
Net pension contributions	<u>46</u>	<u>151</u>
	<u>85,540</u>	<u>126,066</u>
Amortisation of goodwill on acquisition of:		
Subsidiaries	—	431
Associates	—	116
Auditors' remuneration	1,237	1,556
Depreciation:		
Owned fixed assets	12,293	19,456
Leased fixed assets	2	21
Operating lease rentals in respect of land and buildings	4,508	4,512
Foreign exchange losses, net	898	—
Provisions for bad and doubtful debts	16,624	35,413
Loss on disposal of fixed assets	—	142

At the balance sheet date, there were no forfeited contributions (1999: Nil) available to the Group to reduce its contributions to the Mandatory Provident Fund in future years.

# Notes to Financial Statements

31st December, 2000

## 7. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	13,169	38,015
Interest on finance leases	3	—
Exchange differences arising from retranslation of bank loans and other borrowings	1,418	1,565
Bank charges	1,229	3,641
	<u>15,819</u>	<u>43,221</u>
Total finance costs	15,819	43,221
Interest capitalised	—	(4,831)
	<u>15,819</u>	<u>38,390</u>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

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	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	480	360
Other emoluments:		
Basic salaries, bonuses, housing and other allowances, and benefits in kind	18,229	15,041
	<u>18,709</u>	<u>15,401</u>

Directors' fees of HK\$480,000 (1999: HK\$360,000) were paid to two (1999: three) independent non-executive Directors during the year.

# Notes to Financial Statements

31st December, 2000

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (a) Directors' emoluments (continued)

The number of Directors whose emoluments fell within the designated bands is as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>Number of</b>	Number of
	<b>Directors</b>	Directors
Nil – HK\$1,000,000	10	14
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	—	2
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	—
HK\$3,000,001 – HK\$3,500,000	1	—
HK\$3,500,001 – HK\$4,000,000	1	—
HK\$4,500,001 – HK\$5,000,000	1	—
HK\$7,500,001 – HK\$8,000,000	—	1
	<b>16</b>	<b>18</b>

There were no arrangements under which a Director waived or agreed to waive any emoluments during the year.

No value is included in Directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the Directors are unable to arrive at an accurate assessment of the value of the options granted. Further details of the options granted to the Directors during the year are set out in note 30 to the financial statements.

### (b) Employees' emoluments

The five highest paid employees during the year included five (1999: five) Directors, the details of whose emoluments are set out above.

# Notes to Financial Statements

31st December, 2000

## 9. TAX

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax was made in the prior year as the Group had no assessable profits arising in Hong Kong for the year ended 31st December, 1999. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Provision for tax for the year:		
Hong Kong	14,000	—
Overseas	645	4,262
Prior year's under/(over)provisions:		
Overseas	(42)	56
	<u>14,603</u>	<u>4,318</u>
Share of tax attributable to associates:		
Hong Kong	92	—
Overseas	180	331
	<u>272</u>	<u>331</u>
Tax charge for the year	<u>14,875</u>	<u>4,649</u>

## 10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company during the year was HK\$358,221,000 (1999: HK\$939,472,000).

The Group's share of aggregate net losses retained by the associates for the year amounted to HK\$7,425,000 (1999: HK\$2,326,000).

## 11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$305,650,000 (1999: HK\$884,751,000), and the weighted average of 370,393,088 (1999: 364,828,618) ordinary shares in issue during the year, adjusted to reflect the five-to-one share consolidation during the year. The loss per share for the year ended 31st December, 1999 was adjusted accordingly.

The diluted loss per share for the years ended 31st December, 2000 and 1999 has not been shown because the warrants and options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

## Notes to Financial Statements

31st December, 2000

## 12. FIXED ASSETS

## Group

	31st December, 1999 HK\$'000	Additions HK\$'000	Arising from acquisition of subsidiaries HK\$'000	Disposals HK\$'000	Arising from disposal of subsidiaries HK\$'000	Exchange realignments HK\$'000	31st December, 2000 HK\$'000
Cost:							
Hotel properties	963,101	—	—	—	(964,283)	1,182	—
Construction in progress	—	1,419	—	—	—	—	1,419
Land and buildings	21,061	75,128	—	—	(21,187)	(2)	75,000
Leasehold improvements	19,991	4,483	—	(605)	(13,952)	(130)	9,787
Furniture, fixtures and equipment	215,309	2,144	338	(321)	(212,606)	126	4,990
Motor vehicles	4,168	—	—	—	(4,130)	6	44
Computers	8,864	10,653	564	(333)	(7,876)	6	11,878
	<u>1,232,494</u>	<u>93,827</u>	<u>902</u>	<u>(1,259)</u>	<u>(1,224,034)</u>	<u>1,188</u>	<u>103,118</u>
Accumulated depreciation:							
Land and buildings	2,903	31	—	—	(2,931)	(3)	—
Leasehold improvements	15,823	2,155	—	(605)	(13,733)	(25)	3,615
Furniture, fixtures and equipment	100,152	7,949	255	(272)	(105,688)	(2)	2,394
Motor vehicles	2,275	156	—	—	(2,387)	(1)	43
Computers	3,498	2,004	362	(266)	(3,618)	(3)	1,977
	<u>124,651</u>	<u>12,295</u>	<u>617</u>	<u>(1,143)</u>	<u>(128,357)</u>	<u>(34)</u>	<u>8,029</u>
Net book value	<u>1,107,843</u>						<u>95,089</u>

The Group's land and buildings as at 31st December, 2000 were situated in Hong Kong and were held under medium term leases. No depreciation for these land and buildings has been provided for because they had not been put into use as at 31st December, 2000.

The net book value of assets held under finance leases included in the total amount of fixed assets as at 31st December, 2000 amounted to HK\$136,000 (1999: Nil). The depreciation charge for the year in respect of such assets amounted to HK\$2,000 (1999: HK\$21,000).

As at 31st December, 1999, certain of the Group's land and buildings were pledged to banks to secure banking facilities granted to the Group. During the current year, the pledge was released upon the disposal of the subsidiaries which own the relevant properties.

## 13. INVESTMENT PROPERTIES

	Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year, at valuation	—	483,000
Disposal	—	(483,000)
At end of year	—	—

# Notes to Financial Statements

31st December, 2000

## 14. LONG TERM INVESTMENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	34,553	140,158
Provisions for impairments in values	—	(55,157)
	<u>34,553</u>	<u>85,001</u>

## 15. SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,145,819	1,098,625
Amounts due from subsidiaries	<u>2,584,071</u>	<u>2,901,709</u>
	3,729,890	4,000,334
Provisions for diminutions in values	<u>(1,116,408)</u>	<u>(1,218,989)</u>
	<u>2,613,482</u>	<u>2,781,345</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ place of operations	Issued/ registered share capital and class of shares held	Effective % of capital held by		Principal activities
			Company	Group	
Dragon Age Enterprise Inc.	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
E-Scope Limited	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding



## Notes to Financial Statements

31st December, 2000

## 15. SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ place of operations	Issued/ registered share capital and class of shares held	Effective % of capital held by		Principal activities
			Company	Group	
East Asia Satellite Television Limited (formerly Jade Pearl Holdings Limited)	Hong Kong	HK\$2 Ordinary	100	100	Programme production, distribution and broadcasting
East Asia-Televisão Por Satélite, Limitada	Macau	MOP25,000 Quota	—	100	Programme production, distribution and broadcasting
eSun 168.Com Limited (formerly Gain Wealth Associates Limited)	Hong Kong	HK\$100 Ordinary	—	60	Development and operation of a website
Express.com Group Limited	British Virgin Islands	US\$100 Ordinary	100	100	Investment holding
Glynhill International Limited	Hong Kong	HK\$912,623,351 Ordinary	100	100	Investment holding
Golden Pool Enterprise Limited	Hong Kong	HK\$2 Ordinary	—	100	Investment holding
Heathfield Limited	British Virgin Islands/ Canada	US\$100 Ordinary	—	100	Investment in and operation of a restaurant
Houseman International Limited	British Virgin Islands	US\$2 Ordinary	100	100	Investment holding

# Notes to Financial Statements

31st December, 2000

## 15. SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ place of operations	Issued/ registered share capital and class of shares held	Effective % of capital held by Company Group		Principal activities
Kaleidoscope International Limited	British Virgin Islands	US\$1 Ordinary	100	100	Property holding
Lai Sun Technology Company Limited (formerly Future Gold Limited)	Hong Kong	HK\$2 Ordinary	—	100	Provision of administration services
Lancaster Technology Limited	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
Skymaster International Inc.	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
Vision Advertising (HK) Limited	Hong Kong	HK\$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited	PRC	HK\$3,000,000*	—	90	Provision of advertising agency services
Zimba International Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	—	100	Trading of marketable securities

\* The amount stated represents the paid-up capital in the People's Republic of China.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

# Notes to Financial Statements

31st December, 2000

## 16. GOODWILL

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of year	—	74,136
Disposal of subsidiaries	—	(37,657)
Written off	—	(36,479)
At 31st December	—	—
Accumulated amortisation:		
At beginning of year	—	12,864
Provided for the year	—	431
Disposal of subsidiaries	—	(3,246)
Written off	—	(10,049)
At 31st December	—	—
Carrying amount at 31st December	—	—

## 17. ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	—	—	3,947
Share of net assets/(liabilities), other than goodwill	44,498	(36,360)	—	—
Amounts due from associates	3,039	6	—	5
Loans to associates, net of provisions	5,000	163,118	—	102,029
	52,537	126,764	—	105,981
Provisions for diminutions in values of associates	—	(45,702)	—	(45,981)
	52,537	81,062	—	60,000

The balances with associates, including loans to associates, are unsecured, interest-free and have no fixed terms of repayment.

# Notes to Financial Statements

31st December, 2000

## 17. ASSOCIATES (continued)

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation/ registration	Class of shares held	% of equity attributable to the Group	Principal activities
China Economic Information Net (HK) Limited*	Corporate	Hong Kong	Ordinary and redeemable preference	33%	Development and operation of websites
Coolala International Limited* (formerly Star Focus International Limited)	Corporate	Hong Kong	Ordinary	50%	Development and operation of a website
Eastweek.com.hk Limited*	Corporate	British Virgin Islands	Ordinary	50%	Development and operation of a website
HKATV.com Limited*	Corporate	Hong Kong	Ordinary	50%	Development and operation of a website
Media Asia Holdings Ltd.*	Corporate	British Virgin Islands	Ordinary	26.3%	Film production and distribution and investment holding

\* Not audited by Ernst & Young.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

# Notes to Financial Statements

31st December, 2000

## 18. DUE FROM/DEPOSITS PAID TO FURAMA HOTEL ENTERPRISES LIMITED

On 11th February, 1999, the Company and its wholly-owned subsidiary, Golden Pool Enterprise Limited (“GPEL”), entered into an agreement (the “Development Agreement”) with LSD and its wholly-owned subsidiary, Furama Hotel Enterprises Limited (“FHEL”), with respect to the redevelopment of the Furama Hotel Hong Kong (the “Furama Hotel”), which is a property situated in Hong Kong. Pursuant to the Development Agreement, the Furama Hotel would be redeveloped into a composite retail, hotel and office building (the “New Building”) which was expected to be completed in or around May 2004.

Upon the completion of the redevelopment of the New Building, GPEL would purchase the retail and hotel portions from FHEL for a consideration of HK\$1,900,000,000, which was fully paid by GPEL to FHEL in 1999. HK\$964,923,000 of the prepaid consideration was satisfied by releasing LSD from its obligation to settle amounts due to the Group arising from the acquisitions of certain subsidiaries and associates from LSD in 1997. The remaining HK\$935,077,000 was settled by cash. According to the Development Agreement, the prepaid consideration was interest-bearing at the higher of 8% or LIBOR plus 2% per annum for the HK\$964,923,000, and at the three-month deposit rate offered by the Group’s principal banks plus 1% per annum for the remaining HK\$935,077,000. The interest income received and receivable during the year was HK\$69,787,000 (1999: HK\$108,537,000).

Pursuant to the Reorganisation Agreement as detailed in note 4(c) to the financial statements, the Development Agreement was cancelled on 29th June, 2000 upon approval by the shareholders of the Company and LSD. Accordingly, the prepaid consideration of HK\$1,900,000,000 became immediately due from FHEL, of which HK\$399,960,000 was settled as further detailed in note 4(c) to the financial statements. As a result, the amount due from FHEL was reduced to HK\$1,500,040,000.

An intercompany debt deed was entered into by the Company, LSD, FHEL and GPEL on 30th June, 2000 (the “Debt Deed”), pursuant to which the Company agreed to defer the settlement of the remaining HK\$1,500,040,000 of the outstanding indebtedness due from FHEL to the earlier of 31st December, 2002 or the day on which the Exchangeable Bonds and Convertible Bonds 2002 of the LSD group are repaid in full. LSD has guaranteed the repayment of the outstanding principal and accrued interest payable to GPEL. The Company is also entitled to share, on a pari passu and pro rata basis, with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (the “Parties”), the following security:

- (a) a limited recourse second charge over 6,500 shares of HK\$1.00 each in the issued share capital of Diamond String Limited (which owns the Ritz-Carlton Hong Kong Hotel) beneficially owned by LSD; and
- (b) a negative pledge granted by LSD, pursuant to which LSD has agreed not to create additional security over certain major properties of the LSD group without the prior consent of the Parties.

The outstanding balance of HK\$1,500,040,000 is interest-bearing at 5% per annum. The interest income received and receivable during the year in this respect was HK\$37,489,000 (1999: Nil).

# Notes to Financial Statements

31st December, 2000

## 18. DUE FROM/DEPOSITS PAID TO FURAMA HOTEL ENTERPRISES LIMITED (continued)

The transactions were approved by the independent shareholders of the Company and LSD at their respective special/extraordinary general meetings held on 29th June, 2000.

## 19. DEFERRED TAX ASSETS

The principal components of the net deferred tax assets recognised at the balance sheet date mainly comprised capital allowances on fixed assets and certain accrued ground lease and interest expenses.

	Group	
	2000	1999
	HK\$'000	HK\$'000
At beginning of year	1,397	7,873
Arising on disposal of a subsidiary	—	(6,566)
Exchange realignment	(37)	90
	<u>1,360</u>	<u>1,397</u>

The principal components of the net deferred tax asset position not recognised are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Accelerated capital allowances on fixed assets	42	4,013
Tax losses available for carryforward	6,050	26,046
	<u>6,092</u>	<u>30,059</u>

## 20. LONG TERM RECEIVABLES

The balances in the prior year represented the long term portion of receivables arising from the disposal of Group companies in prior years.

## 21. SHORT TERM INVESTMENTS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments at market value:				
Hong Kong	162,732	424	283	—
Elsewhere	238	119	—	—
	<u>162,970</u>	<u>543</u>	<u>283</u>	<u>—</u>

# Notes to Financial Statements

31st December, 2000

## 21. SHORT TERM INVESTMENTS (continued)

The market values of the Group's and the Company's short term listed equity investments at the date of approval of these financial statements were approximately HK\$144,892,000 (1999: HK\$7,139,000) and HK\$342,000 (1999: Nil), respectively.

## 22. DUE FROM FELLOW SUBSIDIARIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Interest receivable from FHEL	18,905	20,169	—	—
Guaranteed rental returns receivable from a fellow subsidiary	—	9,299	—	9,299
	<b>18,905</b>	<b>29,468</b>	<b>—</b>	<b>9,299</b>

(a) The balance of the interest receivable from FHEL is secured (note 18), interest-free and is repayable within one year.

(b) The balance of the guaranteed rental returns receivable in 1999 was unsecured and interest-free.

## 23. STOCKS

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	392	5,735
Work in progress	—	180
Finished goods	—	7,659
	<b>392</b>	<b>13,574</b>

## 24. DUE FROM WHISTLER MOUNTAIN INN, LIMITED PARTNERSHIP

The balance due in 1999 represented the net realisable value of the share of net assets, other than fixed assets, receivable from the dissolution of the Whistler Mountain Inn, Limited Partnership (note 33(c)).

With respect to the dissolution of the Whistler Mountain Inn, Limited Partnership (the "Partnership") in the prior year, an amount of HK\$2,276,000 (1999: HK\$15,082,000) was held in trust as at 31st December, 2000 pending the settlement of all damages, including interest, relating to litigation in respect of the Partnership (see note 33(c)).

# Notes to Financial Statements

31st December, 2000

## 25. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. The aged analysis of the trade debtors as at 31st December, 2000 was as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade debtors:				
Less than 30 days	2,958	15,757	—	—
31–60 days	6,550	6,034	—	—
61–90 days	1,056	—	—	—
Over 90 days	1,592	1,211	—	—
	<u>12,156</u>	<u>23,002</u>	<u>—</u>	<u>—</u>
Other debtors and deposits	<u>37,384</u>	<u>169,010</u>	<u>5,237</u>	<u>4,054</u>
	<u>49,540</u>	<u>192,012</u>	<u>5,237</u>	<u>4,054</u>

The above aged analysis, stated net of provision for doubtful debts, was prepared based on the dates when revenue is recognised from the trade transactions.

## 26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and bank balances	14,004	54,358	63	8,946
Time deposits	<u>36,825</u>	<u>188,355</u>	<u>23,744</u>	<u>95,454</u>
	<u>50,829</u>	<u>242,713</u>	<u>23,807</u>	<u>104,400</u>



# Notes to Financial Statements

31st December, 2000

## 27. CREDITORS AND ACCRUALS

The aged analysis of trade creditors as at 31st December, 2000 was as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade creditors:				
Less than 30 days	2,362	55,198	—	—
31 – 60 days	1,734	—	—	—
61 – 90 days	145	—	—	—
Over 90 days	6,732	192	—	—
	<u>10,973</u>	<u>55,390</u>	<u>—</u>	<u>—</u>
Other creditors and accruals	<u>27,836</u>	<u>28,941</u>	<u>4,138</u>	<u>840</u>
	<u>38,809</u>	<u>84,331</u>	<u>4,138</u>	<u>840</u>

The above aged analysis was prepared based on the dates of receipt of the goods and services purchased.

## 28. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amounts payable:		
Within one year	35	—
In the second year	35	—
In the third to fifth years, inclusive	<u>98</u>	<u>—</u>
Total minimum finance lease payments	168	—
Future finance charges	<u>(46)</u>	<u>—</u>
Total net finance lease payables	122	—
Portion classified as current liabilities	<u>(19)</u>	<u>—</u>
Long term portion	<u>103</u>	<u>—</u>

# Notes to Financial Statements

31st December, 2000

## 29. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Bank loans and overdrafts:		
Secured	—	336,539
Unsecured	—	3,542
	<u>—</u>	<u>340,081</u>
Portion due within one year classified as current liabilities	—	(107,252)
Long term portion	—	232,829
The long term portion of bank loans was repayable over:		
More than one year, but not exceeding two years	—	97,701
More than two years, but not exceeding five years	—	135,128
	<u>—</u>	<u>232,829</u>

In the prior year, the secured bank loans were secured by fixed charges on certain properties of the Group.

## 30. SHARE CAPITAL

	2000		1999	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 (1999: HK\$0.10) each	<u>2,000,000</u>	<u>1,000,000</u>	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.50 (1999: HK\$0.10) each	<u>377,057</u>	<u>188,528</u>	<u>1,824,143</u>	<u>182,414</u>

During the year, the following movements in share capital were recorded:

- (a) The subscription rights attaching to 4,000,000 share options were exercised at the subscription price of HK\$0.50 per share, resulting in the issue of 4,000,000 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$2,000,000.

# Notes to Financial Statements

31st December, 2000

## 30. SHARE CAPITAL (continued)

- (b) On 27th July, 2000, 28,570,000 new ordinary shares of HK\$0.10 each were allotted and issued to certain independent third parties at an ascribed issue price of approximately HK\$0.70 per share, as partial consideration for the acquisition of a 25% equity interest in the enlarged issued share capital of Media Asia Holdings Ltd. (“MAH”).

On the same date, 28,570,000 new ordinary shares of HK\$0.10 each were allotted and issued to Media Asia Investment Ltd., a wholly-owned subsidiary of MAH, at an ascribed issue price of approximately HK\$0.70 per share as full consideration for the acquisition of a 50% equity interest in the issued share capital of Coolala International Limited.

- (c) Pursuant to an ordinary resolution passed on 29th December, 2000, the 3,000,000,000 shares of HK\$0.10 each in the authorised share capital of the Company were consolidated into 600,000,000 shares of HK\$0.50 each, by consolidating every 5 shares of HK\$0.10 each into 1 share of HK\$0.50 each (the “Consolidated Shares”). All of the Consolidated Shares rank pari passu in all respects with the previously existing share capital of the Company.

Pursuant to a further ordinary resolution passed on the same date, the authorised share capital of the Company was increased from HK\$300,000,000 to HK\$1,000,000,000 by the creation of 1,400,000,000 additional Consolidated Shares, ranking pari passu in all respects with the existing share capital of the Company.

A summary of the movements in the issued share capital of the Company during the year is as follows:

	Number of ordinary shares '000	Amount HK\$'000
At beginning of year	1,824,143	182,414
Shares issued on exercise of share options (a)	4,000	400
Shares issued as partial consideration for the acquisition of associates (b)	<u>57,140</u>	<u>5,714</u>
	1,885,283	188,528
Share consolidation (c)	<u>(1,508,226)</u>	<u>—</u>
At 31st December, 2000	<u>377,057</u>	<u>188,528</u>

The shares issued by the Company subsequent to the balance sheet date have been detailed in note 36.

There were no changes to the amount or the number of ordinary shares in issue during the prior year.

# Notes to Financial Statements

31st December, 2000

## 30. SHARE CAPITAL (continued)

### Share options

Pursuant to a share option scheme adopted by the Company on 25th November, 1996, the Directors may, at their discretion, grant options to Executive Directors and employees of the Company or any of its subsidiaries, to subscribe for ordinary shares in the Company.

#### (i) *Share options expiring after 22nd August, 2001*

At the beginning of the year, there were 10,000,000 outstanding share options granted to a Director of the Company. The options were exercisable during the period from 23rd August, 1999 to 22nd August, 2001 at a subscription price of HK\$0.50 per share.

During the year, 4,000,000 of these share options were exercised to subscribe for the Company's shares with gross issue proceeds of HK\$2,000,000.

Pursuant to the consolidation of the Company's shares on 29th December, 2000, the number of these remaining outstanding share options was adjusted from 6,000,000 to 1,200,000 and the exercise price was adjusted from HK\$0.50 per share to HK\$2.50 per share. The exercise in full of these remaining share options would, under the capital structure of the Company as at the balance sheet date, result in the issue of 1,200,000 additional shares of HK\$0.50 each.

#### (ii) *Share options expiring after 12th August, 2002*

On 12th February, 2000, for a total cash consideration of HK\$60, the Company granted 47,000,000 and 10,000,000 share options to the Directors of the Company and employees of the Group, respectively. The options are exercisable during the period from 13th August, 2000 to 12th August, 2002 at a subscription price of HK\$0.61 per share. 37,000,000 of these options are exercisable in 4 six-month tranches.

Pursuant to the consolidation of the Company's shares on 29th December, 2000, the number of these share options granted was adjusted from 57,000,000 to 11,400,000 and the exercise price was adjusted from HK\$0.61 per share to HK\$3.05 per share.

None of these share options was exercised during the year.

As at the balance sheet date, the Company had outstanding 11,400,000 of these share options and the exercise in full of these share options would result in the issue of 11,400,000 additional shares of HK\$0.50 each.

#### (iii) *Share options expiring after 4th September, 2002*

On 4th March, 2000, the Company granted 45,000,000 share options to its Directors for a cash consideration of HK\$30. The options are exercisable during the period from 5th September, 2000 to 4th September, 2002 at a subscription price of HK\$1.40 per share.

Pursuant to the consolidation of the Company's shares on 29th December, 2000, the number of these share options granted was adjusted from 45,000,000 to 9,000,000 and the exercise price was adjusted from HK\$1.40 per share to HK\$7.00 per share.

# Notes to Financial Statements

31st December, 2000

## 30. SHARE CAPITAL (continued)

### Share options (continued)

(iii) *Share options expiring after 4th September, 2002 (continued)*

None of these share options was exercised during the year.

As at the balance sheet date, the Company had outstanding 9,000,000 of these share options and the exercise in full of these share options would result in the issue of 9,000,000 additional shares of HK\$0.50 each.

(iv) *Share options expiring after 28th October, 2002*

On 28th April, 2000, the Company granted 3,000,000 share options for a cash consideration of HK\$10 to an employee of the Group. The options are exercisable during the period from 29th October, 2000 to 28th October, 2002 (in 4 six-month tranches) at a subscription price of HK\$0.283 per share.

Pursuant to the consolidation of the Company's shares on 29th December, 2000, the number of these share options granted was adjusted from 3,000,000 to 600,000 and the exercise price was adjusted from HK\$0.283 per share to HK\$1.415 per share.

None of these share options was exercised during the year.

As at the balance sheet date, the Company had outstanding 600,000 of these share options and the exercise in full of these share options would result in the issue of 600,000 additional shares of HK\$0.50 each.

No adjustment has been made to the numbers of outstanding share options and the exercise prices in respect of the effect of the rights issue completed on 16th January, 2001 as detailed in note 36(a).

# Notes to Financial Statements

31st December, 2000

## 31. RESERVES

### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 1999	2,789,957	891,289	95,802	598	(120,566)	3,657,080
Capital and exchange reserves released upon disposal of subsidiaries	—	—	15,382	—	26,966	42,348
Exchange reserve released upon disposal of properties	—	—	—	—	97,089	97,089
Arising on acquisition of additional interests in:						
Subsidiaries	—	—	(77,239)	—	—	(77,239)
Associates	—	—	(32,350)	—	—	(32,350)
Released upon provisions for diminution in values of fixed assets	—	—	(127,200)	—	—	(127,200)
Capital, general and exchange reserves released upon provisions for diminutions in values of associates	—	—	68,673	(598)	2,447	70,522
Write off of goodwill	—	—	56,932	—	—	56,932
Exchange realignments	—	—	—	—	12,759	12,759
Loss for the year	—	—	—	—	(884,751)	(884,751)
At 31st December, 1999 and 1st January, 2000	2,789,957	891,289	—	—	(866,056)	2,815,190
Issue of shares	34,286	—	—	—	—	34,286
Exercise of share options	1,600	—	—	—	—	1,600
Share issue expenses	(3,366)	—	—	—	—	(3,366)
Elimination of goodwill arising on acquisition of:						
Subsidiaries	—	(227,445)	—	—	—	(227,445)
Associates	—	(595,610)	—	—	—	(595,610)
Exchange reserve released upon disposal of:						
Subsidiaries	—	—	—	—	256	256
Associates	—	—	—	—	2,526	2,526
Exchange realignments	—	—	—	—	836	836
Loss for the year	—	—	—	—	(305,650)	(305,650)
At 31st December, 2000	2,822,477	68,234	—	—	(1,168,088)	1,722,623

## Notes to Financial Statements

31st December, 2000

## 31. RESERVES (continued)

## Group (continued)

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Retained by:						
Company and subsidiaries	2,822,477	68,234	—	—	(1,163,984)	1,726,727
Associates	—	—	—	—	(4,104)	(4,104)
31st December, 2000	<u>2,822,477</u>	<u>68,234</u>	<u>—</u>	<u>—</u>	<u>(1,168,088)</u>	<u>1,722,623</u>
Company and subsidiaries	2,789,957	891,289	—	—	(848,996)	2,832,250
Associates	—	—	—	—	(17,060)	(17,060)
31st December, 1999	<u>2,789,957</u>	<u>891,289</u>	<u>—</u>	<u>—</u>	<u>(866,056)</u>	<u>2,815,190</u>

Included in the debit balance of accumulated losses as at 31st December, 2000 are accumulated credit balances in respect of exchange realignments amounting to HK\$21,884,000 (1999: HK\$18,266,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange during the Group reorganisation in November 1996.

## Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 1999	2,789,957	845,455	79,904	3,715,316
Loss for the year	<u>—</u>	<u>—</u>	<u>(939,472)</u>	<u>(939,472)</u>
At 31st December, 1999 and 1st January, 2000	2,789,957	845,455	(859,568)	2,775,844
Issue of shares	34,286	—	—	34,286
Exercise of share options	1,600	—	—	1,600
Share issue expenses	(3,366)	—	—	(3,366)
Loss for the year	<u>—</u>	<u>—</u>	<u>(358,221)</u>	<u>(358,221)</u>
At 31st December, 2000	<u>2,822,477</u>	<u>845,455</u>	<u>(1,217,789)</u>	<u>2,450,143</u>

# Notes to Financial Statements

31st December, 2000

## 31. RESERVES (continued)

### Company (continued)

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired, pursuant to the Group reorganisation in November 1996, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities

	Group	
	2000 HK\$'000	1999 HK\$'000
Loss from operating activities	(268,265)	(1,286,573)
Interest income	(126,119)	(117,002)
Dividend income	(1,000)	—
Depreciation	12,295	19,477
Write-off of goodwill	—	83,362
Amortisation of goodwill on acquisition of subsidiaries and associates	—	547
Loss/(gain) on disposal of fixed assets	(1,015)	142
Loss on disposal of a property	—	158,645
Loss on disposal of a long term investment	20,000	—
Gain on disposal of subsidiaries	(23,596)	(58,306)
Gain on disposal of associates	(11,612)	—
Gain on disposal of short term investments	(15,389)	(2,055)
Unrealised holding loss/(gain) on short term investments	351,206	(220)
Provisions for diminutions in values of fixed assets	—	1,030,470
Provisions for impairments in values of long term investments	—	55,157
Provisions for diminutions in values of associates	—	116,224
Provisions for bad and doubtful debts	16,624	35,413
Write-back of provisions for bad and doubtful debts	(31,558)	—
Compensation on investments in subsidiaries	—	(2,459)
Legal and professional fees in respect of the group reorganisation	6,646	—
Increase in amounts due from associates	—	(4,025)
Decrease/(increase) in amounts due from fellow subsidiaries	9,299	(980)
Decrease in stocks	3,644	506
Decrease in amount due from Whistler Mountain Inn, Limited		
Partnership	3,147	17,871
Decrease/(increase) in debtors and deposits	(28,058)	29,352
Decrease in creditors and accruals	(33,084)	(41,550)
Net cash inflow/(outflow) from operating activities	<u>(116,835)</u>	<u>33,996</u>



## Notes to Financial Statements

31st December, 2000

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)  
 (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans, cash held in trust, deposits pledged, and other borrowings* HK\$'000	Finance lease obligations HK\$'000	Due from LSD HK\$'000	Minority interests HK\$'000
Balance at 1st January, 1999	2,972,371	843,468	—	(382,377)	743,341
Net cash inflow/(outflow) from financing	—	(297,142)	—	—	32,441
Share of net loss for the year	—	—	—	—	(442,100)
Arising on acquisition of additional interest in subsidiaries	—	—	—	—	38,039
Arising on disposal of subsidiaries	—	(238,305)	—	—	(32,523)
Compensation on investments in subsidiaries	—	—	—	(2,459)	—
Compensation received on investments in subsidiaries	—	—	—	2,751	—
Reclassification of amount due from LSD to deposit paid to FHEL	—	—	—	382,190	—
Exchange realignments	—	14,853	—	(105)	(444)
Balance at 31st December, 1999 and 1st January, 2000	2,972,371	322,874	—	—	338,754
Net cash inflow/(outflow) from financing	2,000	(26,363)	(16)	—	16,477
Share issue expenses	(3,366)	—	—	—	—
Share issue on acquisition of associates	40,000	—	—	—	—
Share of net loss for the year	—	—	—	—	(462)
Inception of finance lease	—	—	138	—	—
Arising on acquisition of subsidiaries	—	—	—	—	62
Arising on disposal of subsidiaries	—	(299,249)	—	—	(354,701)
Exchange realignments	—	462	—	—	91
Balance at 31st December, 2000	3,011,005	(2,276)	122	—	221

\* excluding bank loans with less than three months to maturity.

# Notes to Financial Statements

31st December, 2000

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Reconciliation of the balance of cash and cash equivalents in respect of short term bank loans

	2000	1999
	HK\$'000	HK\$'000
Short term bank loans	—	107,252
Bank loans with over three months to maturity	—	(105,127)
Bank loans with less than three months to maturity	—	2,125

### (d) Acquisition of subsidiaries

	2000	1999
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	285	—
Long term investments	20,199	—
Associates	6,961	—
Debtors and deposits	15,588	—
Cash and cash equivalents	15,164	—
Creditors and accruals	(22,735)	—
Minority interests	(62)	—
	35,400	—
Goodwill on acquisition	227,445	—
	262,845	—
Satisfied by:		
Cash	10,525	—
Amount payable to Furama Hotel Enterprises Limited	252,320	—
	262,845	—

# Notes to Financial Statements

31st December, 2000

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (d) Acquisition of subsidiaries (continued)

Analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2000 HK\$'000	1999 HK\$'000
Cash consideration	(10,525)	—
Cash and cash equivalents acquired	<u>15,164</u>	<u>—</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>4,639</u>	<u>—</u>

The subsidiaries acquired during the year utilised HK\$5,389,000 (1999: Nil) of the Group's net operating cash flows, contributed HK\$77,000 (1999: Nil) in respect of the net returns on investments and servicing of finance, and paid HK\$2,589,000 (1999: Nil) in respect of the investing activities, but had no significant impact in respect of tax and the financing activities of the Group.

The subsidiaries acquired during the year contributed HK\$13,440,000 (1999: Nil) to turnover and a profit of HK\$2,492,000 (1999: Nil) to the loss before minority interests of the Group for the year.

# Notes to Financial Statements

31st December, 2000

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (e) Disposal of subsidiaries

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Fixed assets	1,095,677	47,216
Investment properties	—	483,000
Goodwill	—	34,411
Associates	—	429,898
Deferred tax assets	—	6,566
Properties under development held for sale	—	435,284
Stocks	9,538	5,702
Debtors and deposits	40,060	29,125
Cash and cash equivalents	67,584	9,139
Creditors and accruals	(45,219)	(32,636)
Tax payable	—	(56)
Bank loans and other borrowings	(300,118)	(259,359)
Minority interests	(354,701)	(32,523)
Release of exchange reserve	256	26,966
Release of capital reserve	—	15,382
	<u>513,077</u>	<u>1,198,115</u>
Gain on disposal	<u>23,596</u>	<u>58,306</u>
	<u>536,673</u>	<u>1,256,421</u>
Satisfied by:		
Cash	—	1,132,135
Receivables	—	124,286
Amount due from Furama Hotel Enterprises Limited	<u>536,673</u>	<u>—</u>
	<u>536,673</u>	<u>1,256,421</u>

# Notes to Financial Statements

31st December, 2000

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (e) Disposal of subsidiaries (continued)

Analysis of net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	2000 HK\$'000	1999 HK\$'000
Cash consideration	—	1,132,135
Cash and bank balances disposed of	(67,584)	(9,139)
Bank loans disposed of with maturity within three months from the date of advance	<u>869</u>	<u>21,054</u>
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(66,715)</u>	<u>1,144,050</u>

The subsidiaries disposed of during the year contributed HK\$13,875,000 (1999: HK\$1,513,000) to the Group's net operating cash flows, paid HK\$12,277,000 (1999: HK\$5,591,000) in respect of the net returns on investments and servicing of finance, made no contribution/payment (1999: paid HK\$4,949,000) in respect of tax, paid HK\$1,452,000 (1999: contributed HK\$16,639,000) for investing activities, and contributed HK\$781,000 (1999: paid HK\$118,426,000) in respect of financing.

The subsidiaries disposed of during the year contributed HK\$145,760,000 (1999: HK\$34,406,000) to turnover and profit of HK\$5,428,000 (1999: HK\$26,634,000) to the loss before minority interests of the Group for the year.

# Notes to Financial Statements

31st December, 2000

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (f) Major non-cash transactions

#### (i) Asset transfers under the group reorganisation

As further detailed in note 4(c), on 1st June, 2000, the Company and LSD entered into a reorganisation agreement which contemplated the transfer by the Company of certain hotel and ancillary assets with an aggregate value of HK\$685,410,000 to LSD, in the form of disposal of equity interests in subsidiaries and associates and a long term investment, and, at the same time, the transfer by LSD of certain technology-oriented assets with an aggregate value of HK\$1,085,370,000 to the Company. The excess consideration of HK\$399,960,000 payable by the Company to LSD in respect of such asset transfers was deducted from the outstanding principal amount of indebtedness, in the amount of HK\$1,900,000,000 which Furama Hotel Enterprises Limited ("FHEL"), otherwise owed to Golden Pool Enterprise Limited. As a result, the amount due from FHEL was reduced to HK\$1,500,040,000 as at 31st December, 2000. Further details of subsidiaries acquired and disposed of in respect of such asset transfers are detailed in notes 32(d) and (e) above. Other major non-cash transactions in respect of such asset transfers are summarised below:

	HK\$'000
Land and buildings acquired	75,000
Marketable securities acquired	513,300
Equity interests in associates acquired	244,750
Equity interests in associates disposed of	88,737
Long term investment disposed of	60,000

(ii) On 27th July, 2000, the Company issued a total of 57,140,000 new ordinary shares of HK\$0.10 each at an ascribed issue price of approximately HK\$0.70 per share as partial consideration for the acquisition of interests in two associates, as detailed in note 30.

(iii) In 1999, the deposit of HK\$964,923,000 relating to the acquisition of the hotel portions of the Furama Hotel was satisfied by the Group releasing LSD from its obligation to settle the amounts due to the Group which arose from the acquisitions of certain subsidiaries and associates from LSD in 1997.

# Notes to Financial Statements

31st December, 2000

## 33. LITIGATION

- (a) In December 1998 and in early 1999, Art 57 Properties, Inc. (“Art 57”) commenced two actions in separate courts in the United States of America against the parties to the sale and purchase of the Four Seasons Hotel, New York (“FSNY”), alleging breach of contract, fraud and promissory estoppel. Art 57 sought specific performance for the acquisition of the FSNY, or alternatively damages of not less than US\$80 million. The Group owned a 50% beneficial interest in the FSNY through subsidiaries and two of the Group’s subsidiaries were named as defendants. The courts dismissed: (a) all of the preliminary applications and injunctions applied by Art 57; (b) all claims against several defendants; and (c) several claims in the remaining action. Art 57 appealed the findings, and one of the appeals was also dismissed in early 2000. The other appeal had not been set for hearing and has now been dismissed as part of the settlement described below.

The Directors considered that the Group had substantial defence to the remaining action and to the outstanding appeal. However, in the interest of finalising the transaction with the purchaser, after receiving legal advice, the defendants settled with Art 57, and releases have been executed between all parties in May 2000. Pursuant to the terms of the releases, the defendants collectively paid Art 57 US\$2 million. The Group paid its share of US\$1 million (approximately HK\$8 million) during the year. The excess provision of HK\$31,558,000 made in the prior year has been written back during the year following the settlement of this litigation.

- (b) In 1998, the Group disposed of its 50% interest in Delta Hotels Limited (“DHL”) to Canadian Pacific Hotels Corporation (the “Purchaser”). Under the terms of the sale and purchase agreement, C\$10 million (approximately HK\$52 million) of the sale proceeds was held in escrow (the “Escrow Funds”) pending the expiration of a warranty period.

During the year, the Purchaser made claims against the Escrow Funds. Subsequently, C\$8 million (approximately HK\$42 million) of the Escrow Funds was released to the Group and the other owner during the year. The Group and the other owner have commenced action against the Purchaser for the remaining C\$2 million (approximately HK\$10 million), and the Purchaser has issued a counterclaim for the C\$2 million (approximately HK\$10 million).

The litigation is currently in a discovery stage, and the Directors are uncertain as to the amount of the Escrow Funds that will be recovered by the Group. However, the Group has been advised by the other owner that they have substantive grounds to rebut the defence and counterclaims made by the Purchaser, and the Directors are satisfied that the Group will receive a significant portion of the Escrow Funds in due course.

# Notes to Financial Statements

31st December, 2000

## 33. LITIGATION (continued)

- (c) In the 1999 annual report, it was reported the Group had lost its appeal in the litigation in respect of the Whistler Mountain Inn, Limited Partnership (“WMILP”) against the limited partners. Subsequent to the appeal, the Group settled with the plaintiffs the quantum of damages, interest, and costs of the action, and the court appointed receiver of the limited partnership commenced the liquidation of the limited partnership. However, the action with the limited partners and the subsequent settlement did not deal with a separate C\$600,000 claim from one of the limited partners against the Group and the other limited partners. The claimant claimed that he acquired his units in the WMILP in 1982 on the basis that they would not be subject to the limited partnership agreement, and wanted the return of all the rent earned on his partnership units since 1982. Although this separate action has been outstanding since 1989, it has been inactive. The receiver of the limited partnership has indicated that it will apply to dismiss the action for failure to proceed.

The exposure of the Group to this litigation has been covered by an indemnity from LSD and Mr. Lam Kin Ngok, Peter, a Director of the Company.

- (d) In the 1999 annual report, it was also reported that Sun Microsystems Inc. (“SMI”) had commenced legal proceedings against the Group in March 2000, alleging the Group’s use of the “eSun” trademark was a passing off of SMI’s own trademarks. The interlocutory injunction application by SMI was dismissed by the High Court of Hong Kong, with a strong indication from the Court that SMI’s case lacked merit. The matter has since been dormant, but the action is still considered “pending”.



# Notes to Financial Statements

31st December, 2000

## 34. COMMITMENTS

Commitments not provided for in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital commitments:				
Contracted for	14,253	—	—	—
Authorised, but not contracted for	46,660	—	—	—
	<u>60,913</u>	<u>—</u>	<u>—</u>	<u>—</u>
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	1,434	43	504	—
In the second to fifth years, inclusive	1,396	3,422	—	—
	<u>2,830</u>	<u>3,465</u>	<u>504</u>	<u>—</u>

## 35. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to third parties in connection with restaurant operations	446	460	—	—
Guarantee given to LSD in connection with the disposal of an associate to LSD (Note)	25,000	—	25,000	—
	<u>25,446</u>	<u>460</u>	<u>25,000</u>	<u>—</u>

Note: In connection with the Reorganisation Agreement described further in note 4(c), the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. ("GIGC") to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.

GIGC has not obtained valid land use rights over a total area of 1,430 mu (approximate 953,338.10 square metres) of the land ("Land") on which the golf club is situated, which would show unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.

The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use right certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK\$25,000,000.

# Notes to Financial Statements

31st December, 2000

## 36. SUBSEQUENT EVENTS

(a) On 16th November, 2000, the Company proposed to raise not less than HK\$160 million, before expenses, by issuing approximately 188,528,309 new shares of the Company of HK\$0.50 each, by way of rights issue at a price of HK\$0.85 per rights share on the basis of one rights share for every two existing shares held on 29th December, 2000. On 16th January, 2001, the Directors announced that the rights issue of 188,528,309 new shares had become unconditional and payable in full on acceptance. Such acceptances included:

- (i) 41,278,412 rights shares accepted and paid for by the existing shareholders of the Company (including 41,204,213 rights shares and 74,199 excess rights shares) and 50,346,989 rights shares accepted and paid for by the underwriter.
- (ii) 96,902,908 rights shares accepted and paid for by LSD and its subsidiaries, Mr. Lim Por Yen, Madam U Po Chu, Mr. Lam Kin Ngok, Peter and Grand Hill Holdings Limited.

Two-thirds of the net proceeds generated from the rights issue will be applied towards the acquisition and establishment of television program production centre and facilities to be set up for both Hong Kong Office and a site in the Macau Special Administrative Region. The remaining one-third of the net proceeds will be retained as working capital for the program production.

- (b) On 9th February, 2001, a conditional sale and purchase agreement (the "Agreement") was entered into between Autumn Gold Limited ("Autumn Gold"), a wholly-owned subsidiary of the Company, and Mr. Chan Chee Kheong ("Mr. Chan"). Pursuant to the Agreement, Autumn Gold acquired from Mr. Chan 5 existing shares of HK\$1.00 each, being 50% equity interest, of The Artiste Campus International Limited ("ACL") (formerly known as Union Holding Limited), a company incorporated in Hong Kong with limited liability, for a total consideration of HK\$7,600,005, comprising (i) HK\$2,000,005 in cash, and (ii) the balance of HK\$5,600,000 by the allotment and issue of a total of 5,600,000 new shares of HK\$0.50 each in the share capital of the Company (the "Consideration Shares"), at an issue price of HK\$1.00 per share. The allotment of the 5,600,000 new shares to Mr. Chan was completed on 4th April, 2001. ACL is engaged in the provision of agency services for artists in the entertainment industry.
- (c) Immediately prior to the allotment and issue of the Consideration Shares noted in (b) above, LSD held 285,512,791 shares in the Company out of a total of 565,584,927 shares then in issue, representing approximately 50.48% of the then existing issued share capital of the Company. As a result of the allotment and issue of the Consideration Shares to Mr. Chan, LSD's shareholding percentage in the Company was reduced, by way of dilution, from approximately 50.48% to approximately 49.99%.

# Notes to Financial Statements

31st December, 2000

## **37. COMPARATIVE AMOUNTS**

As further explained in note 3 to the financial statements, due to the discontinuance of the Group's investment in and operation of hotels and restaurants, and property investment, the prior year's balance of turnover, other revenue, and loss from operating activities in respect of these discontinued operations, which had previously been classified as part of the continuing operations, have been reclassified as "discontinued operations" for comparative purposes.

## **38. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of Directors on 20th April, 2001.